



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Edelen Releases Audit of Simpson County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Adam Edelen has released the audit of the financial statements of the Simpson County Fiscal Court for the fiscal year ended June 30, 2012. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

**The Fiscal Court lacks adequate segregation of duties over payroll and employee benefits account.** As a result of our audit, we noted a lack of segregation of duties exists over payroll and the employee benefits account. No documented review or compensating controls exist over these areas. We noted the following during our review of internal controls:

- The County Treasurer prepares and deposits the payroll receipts, posts to the ledgers, prepares reports, and performs bank reconciliations on these accounts
- The County Treasurer reviews time records and withholdings in the payroll system
- Banks statements only contained the front of checks issued
- Payroll account ledger and employee benefits account ledger are not being reconciled to the bank accounts accurately
- Employee benefits account is not being reconciled consistently to the FEBCO flexible spending reports

The lack of segregation of duties occurs because the fiscal court has failed to segregate incompatible duties or implement oversight when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. We recommend the fiscal court separate the duties in preparing and depositing receipts, recording transactions, preparing reports, and reconciling payroll bank accounts. If any of these duties cannot be segregated due to limited staff or budget, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this oversight. We also recommend the following:

- The County Judge/Executive or designee could compare payroll vouchers to individual earnings records to verify accuracy.
- The County Judge/Executive could require the finance officer or administrative assistant to maintain time records.
- Bank statements could contain both the front and back of checks
- An independent person could complete bank reconciliations or review the treasurer's bank reconciliations to ledgers for accuracy. The independent person should then sign off on the bank reconciliations or ledgers to verify completion.

*County Judge/Executive Jim Henderson's response: I intend to have my finance officer and administrative assistant work with me to establish a more comprehensive payroll system to insure more oversight and greater segregation of duties. I also intend to ask each of our banks to provide both the front and back of checks as a part of their service to our accounts. I will be asking my finance officer and administrative assistant to assist me in either preparing or reviewing the treasurer's bank reconciliations.*

### **The Jail Canteen lacks adequate segregation of duties over receipts and disbursements.**

The bookkeeper for the Jail Canteen makes deposits, signs checks, makes entries into the accounting system, and performs bank reconciliations. The jail's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost effective manner. The result of one person performing all of these duties increases the likelihood that errors or fraud could occur and go undetected by the internal control system. The segregation of duties and responsibilities between different individuals for custody of assets, record keeping of those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the jail canteen resources and ensure accurate financial reporting. If segregating duties is not possible, the Jailer should implement compensating controls to reduce the risk and document these compensating controls. Compensating controls that have been implemented by the Jailer to reduce the risk are another office staff reviews deposits and daily checkout sheets, compares book balance to the exported trial balance amounts and looks for unusual reconciling items.

*County Judge/Executive Jim Henderson's response: I have met with Jailer Eric Vaughn and his administrative staff to address the canteen account. I am satisfied that they are working to improve in the area of adequate segregation of duties.*

*County Jailer Eric Vaughn's response: The Jailer will assign a third person unrelated to the accounting department to review deposits and daily checkout sheets for unusual reconciling items.*

**The Fiscal Court and Jailer should improve controls over payroll.** As a result of our audit, we noted fiscal court and the jailer had weaknesses in internal controls over the payroll process. The below weaknesses in internal control over the payroll process were allowed to occur because the fiscal court and jailer lack controls and oversight. During our review of payroll, we noted the following weaknesses and the results of those weaknesses:

- \$150 in overdraft charges occurred in the employee benefits bank account which is not beneficial to the public.
- Payroll revolving account did not reconcile to zero balance as of June 30, 2012 and the remaining \$39,008 balance could not be readily explained. Failure to transfer excess cash back to appropriate funds results in cash that can be used for other expenses not being available.
- Employee benefits account had funds of \$5,928 remaining for fiscal year ending June 30, 2012 that were not utilized by employees for flexible spending money. These funds should be transferred back to the employer (Fiscal Court) after the elapsed time has passed. In addition, this account had an unexplained remaining balance of \$1,103 that could not be readily explained. Failure to transfer excess cash back to appropriate funds results in cash that can be used for other expenses not being available.
- The employee share of retirement on the Jailer's salary was incorrectly withheld due to being incorrectly computed in the payroll system for part of calendar year 2011 resulting in the Jailer's net pay being incorrect and Kentucky Retirement Systems being overpaid.
- Timesheets were not signed by a supervisor on two (2) employees tested which could result in incorrect timesheets being submitted and employees being over or under paid.
- Jail employees' timesheets/timecards were stamped for approval with a Jailer's signature stamp.
- Four (4) Jail employees tested are considered part-time salaried and are not required to use a time clock when other part-time employees are required to use a time clock. Two of these part-time salaried employees do submit timesheets but are paid a set amount regardless of number of hours worked. The other two part-time salaried employees do not submit any kind of time record.
- Payroll change notices on file with Fiscal Court in personnel files were not always signed by the Jailer or supervisor and one (1) Jail employee noted during testing was given a salary increase without Jailer or supervisor's signature. Employees could be overpaid or underpaid the salary set by the Jailer.
- Fiscal Court did not approve the change in the amount of employer's share of health insurance allowed per employee which could result in employees receiving the wrong amount.

Payroll revolving accounts are clearing accounts and should reconcile to a zero balance at the end of each month. As a result of the weaknesses noted above, reconciled ending balances were not accurate. Kentucky Revised Statute (KRS) 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual requires the County

Judge/Executive to maintain time records. He may delegate this duty to the finance officer or an administrative assistant. Good internal controls dictate that timesheets should be signed by employees and their immediate supervisor and timesheets be reviewed for accuracy. In addition, time records should be maintained by all jail employees to comply with KRS 441.225(2) which requires the Jailer to “submit, in accordance with county payroll procedures, time reports for all full-time and part-time jail personnel and employees to the county treasurer or other designated payroll official.” In addition, the fiscal court must document compliance with KRS 78.510(21) which states that employees who average one hundred (100) or more hours per month in a fiscal year are full time employees and should participate in the retirement system.

We recommend the Fiscal Court and Jailer strengthen controls over the payroll process by:

- Ensuring unnecessary overdraft charges do not occur.
- Reconciling the revolving payroll account and employee benefits account each month and at year end to a zero balance and transfer excess cash back to the appropriate funds when necessary.
- All timesheets should be signed by a supervisor for approval of hours worked.
- Jail employees’ timesheets/timecards should be signed by a supervisor or designated employee to determine hours worked is correct.
- All jail employees should be required to have time records in accordance with KRS 441.225(2).
- Jailer should be consistent in who he requires to use the time clock especially for part-time employees.
- Payroll change notices should be signed by employees, supervisors, elected official, and Payroll Officer.

*County Judge/Executive Jim Henderson’s response: I have met with the County Treasurer to discuss the overdraft charges and the corresponding issues that resulted in these. She is working to insure that this does not occur after this point. I have also asked her to do more research regarding the unexplained balances in the payroll & employee benefits accounts. It is her opinion that these funds are carried over, unused flex dollars from prior fiscal years. I have advised her that we need to zero out these accounts monthly and at year end. All timesheets will be required to have a supervisor’s signature. I have spoken with Jailer Vaughn about the need for consistency with the payroll documentation from the Jail. He assures me that they will comply with our payroll policies regarding time records, time clocks, and proper categorization and documentation with part-time employees.*

*County Jailer Eric Vaughn’s response: Jailer will comply with payroll controls as established by the Fiscal Court. Timecards will be manually signed by Jailer or his designee.*

**The Jailer should prepare accurate records for the Jail Canteen fund.** The Jailer did not maintain adequate records to satisfy the guidelines for minimum accounting and reporting standards as prescribed by the State Local Finance Officer. During our review of the Jail Canteen, we noted the following deficiencies:

- The yearly financial statement of the Jail Canteen did not accurately reflect the canteen's records. Reports produced by the computerized accounting system did not make adjustments for voided transactions or reversals.
- The computerized accounting system allowed the Jail to issue checks using duplicate check numbers.
- Cash balance to book balance reconciliation as of June 30, 2012 was not documented.
- The Jailer did not prepare accurate bank reconciliations. List of outstanding checks and deposits in transit was not maintained with each month's bank reconciliation due to computerized accounting system not running the report correctly.
- Collection report for inmate money deposited via kiosk, internet, or phone to vendor should be kept with the daily and monthly reconciliations to account for all receipt numbers. This amount was written on the daily checkout process but should also be supported with a report from the computerized accounting system listing receipt numbers.
- The Jailer only maintains one bank account for both the Jail Canteen Fund and Jail Inmate Fund without accounting for the activity of each fund separately. Since the funds are not accounted for separately, we could not accurately determine the total canteen sales for the Jail Canteen Fund or report the activity of these funds separately.

The Jailer is not performing his job functions relating to the Jail Canteen Fund pursuant to Kentucky Revised Statutes. In addition, the employees assigned to the jail canteen are not adequately trained to use the computerized accounting system properly. Reports such as the annual report to the county treasurer on the activity of the Jail Canteen Fund and Jail Inmate Fund cannot be prepared without accurate ledgers and a proper understanding of the computerized accounting system. In addition, inaccurate bank reconciliations result in the incorrect book balance being reported. Decisions on purchasing items for the jail inmates cannot be properly made without a correct book balance. In addition, the Jailer cannot make decisions about funds available to be transferred to the Jail Fund for certain expenses.

Kentucky Revised Statute (KRS) 441.135 requires the Jailer to maintain records of receipts and disbursements of the jail canteen fund and to prepare a report annually for the county treasurer. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual provides guidelines to maintaining records for the jail canteen. In accordance with these guidelines, monthly reconciliations should be prepared as follows:

- **JAIL COMMISSARY SUMMARY AND RECONCILIATION** - The year to date summary section of this report will provide a cash balance at anytime during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The Reconciliation section of this report reconciles the bank balance to the cash balance. A monthly cash reconciliation shall be maintained. This report may be used for the year-end report submitted to County Treasurer pursuant to KRS 441.135(2).

We recommend the Jailer comply with the guidelines prescribed by the State Local Finance Officer by maintaining the required financial records in the manner describe above. In addition, we recommend the jailer comply with applicable statutes by preparing and submitting an

accurate annual canteen report to the county treasurer at year-end. We also recommend accurate bank reconciliations be prepared monthly and in a timely manner. All outstanding checks and deposits in transit should be included on the reconciliation in order to present a correct reconciled balance. We recommend the Jailer contact the vendor for the computerized accounting system to obtaining a better understanding of how the system can be used to account for canteen and inmate funds separately. If the computerized system does not allow for separate accountings for these funds, separate bank accounts could be used to achieve this goal. Also, supporting documentation should be maintained with daily checkout sheets for vendor money to reconcile to the bank statements since this money is automatically deposited to the Jail Canteen bank account by the vendor.

*County Judge/Executive Jim Henderson's response: I have addressed these concerns with Jailer Vaughn. He is committed to making the necessary changes to comply with policies concerning the records for the Jail Canteen Fund.*

*County Jailer Eric Vaughn's response: Staff has already been sent for additional training and the software vendor is amending the reports to more accurately relate to state forms. In the meantime, staff has devised a formula to give accurate balances for canteen and inmate account funds, as well as outstanding transactions. Software vendor has already supplied an update to prevent duplicate check numbers.*

The audit report can be found on the [auditor's website](#).

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